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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

GEORGE DALE, Commissioner of Insurance for the)
State of Mississippi, in his official capacity as Receiver)
of FRANKLIN PROTECTIVE LIFE INSURANCE)
COMPANY, GEORGE DALE, Commissioner of)
Insurance for the State of Mississippi, in his official)
capacity as Receiver of FAMILY GUARANTY LIFE)
INSURANCE COMPANY, GEORGE DALE,)
Commissioner of Insurance for the State of)
Mississippi, in his official capacity as Receiver of)
FIRST NATIONAL LIFE INSURANCE COMPANY)
OF AMERICA, PAULA A. FLOWERS,)
Commissioner of Commerce and Insurance for the)
State of Tennessee, in her official capacity as Receiver)
of FRANKLIN AMERICAN LIFE INSURANCE)
COMPANY, SCOTT B. LAKIN, Director of the)
Department of Insurance for the State of Missouri, in)
his official capacity as Receiver of INTERNATIONAL)
FINANCIAL SERVICES LIFE INSURANCE)
COMPANY, CARROLL FISHER, Insurance)
Commissioner for the State of Oklahoma, in)
his official capacity as Receiver of FARMERS AND)
RANCHERS LIFE INSURANCE COMPANY, in)
Liquidation, and MIKE PICKENS, Insurance)
Commissioner for the State of Arkansas, in his official)
capacity as Receiver of OLD SOUTHWEST LIFE)
INSURANCE COMPANY,)

Plaintiffs,)

against)

BEAR STEARNS & CO., INC., BEAR STEARNS)
SECURITIES CORP., and THOMAS BLAIR,)

Defendants.)

COMPLAINT

_____ Civ. 2004

Plaintiffs, for their Complaint against Bear Stearns & Co., Inc., Bear Stearns Securities Corp. (collectively “Bear Stearns”) and Thomas Blair, state as follows:

INTRODUCTION

1. This action is brought to recover damages in excess of \$200 million due seven insurance companies and to compensate them for losses caused by the misconduct of the defendants. The action arises out of a course of illegal conduct masterminded by Martin Frankel (“Frankel”), that began no later than 1990 and extended until September 1999, when Frankel was captured and incarcerated in Germany. During this period, Frankel, assisted by numerous others including defendants, devised and implemented a scheme to defraud various investors, financial institutions and insurance companies, and to obtain money and property from them, by false and fraudulent representations and pretenses. Among other things, his plan called for the acquisition of insurance companies while concealing his involvement and control of the companies, the looting of the acquired insurance companies’ assets, the laundering of the ill-gotten gains through accounts in the United States and Switzerland, including multiple accounts at Bear Stearns, and the subsequent dissipation of the assets by Frankel and others, including defendant Blair, for their personal benefit and enjoyment. Frankel’s plan was essentially a Ponzi scheme, because some of the money looted from the insurance companies he acquired was used to fund the acquisition of additional insurance companies, which would in turn be looted of their assets, and the ill-gotten gains laundered and dissipated. In total, over \$200 million was looted from the Insurance Companies.

2. Frankel has pled guilty to twenty counts of wire fraud in violation of 18 U.S.C. § 1343, one violation of the Racketeer Influenced and Corrupt Organizations Act, 18 U.S.C.

§ 1962(c), and RICO conspiracy in violation of 18 U.S.C. § 1962(d). *United States v. Martin R. Frankel, et al.*, No. 3:99-CR-235 (D. Conn.) Frankel has admitted orchestrating a scheme to defraud various investors, financial institutions, and insurance companies, including the seven insurance companies whose receivers are bringing this action. In connection with the RICO violations, Frankel admitted to conducting an association-in-fact enterprise through a pattern of racketeering activity that included multiple acts of wire fraud and money laundering. In addition, Frankel has pled guilty to numerous state criminal violations in Tennessee and Mississippi.

3. During all times relevant to the claims alleged herein, Frankel used numerous alias identities (which were in some cases wholly fictitious, and in other cases appropriated from other persons by Frankel, with or without their knowledge), including “Michael Fiore,” “Mike Gates,” “Martin King,” “Mike King,” “Eric Jensen,” “Eric Cornell Jensen,” “David Ross,” “David Rosse,” “Mark Shuki,” “David Stevens,” “Eric Stevens,” “Will Stevens,” “Steve Martin Rothschild,” “Steve Rothschild” and others unknown to Plaintiffs (hereinafter, “Frankel” refers to Martin Frankel, inclusive of any other identities he may have used as aliases).

4. Other non-parties associated with Frankel included John Hackney (“Hackney”), Gary Atnip (“Atnip”), and John Jordan (“Jordan”), who assisted in the acquisition and operation of the Insurance Companies; Robert Guyer (“Guyer”), who acted as a front for Frankel in connection with a broker-dealer firm Frankel secretly owned; David Rosse, who acted as Frankel’s security advisor; and Sonia Howe (“Howe”) and Kathe Schuchter Moreau (“Schuchter”), who helped Frankel run his fraudulent operation. Hackney,

Atnip, Jordan, Guyer, Rosse, and Howe have all pled guilty to various federal offenses relating to their involvement in Frankel's scheme to defraud. Schuchter has been indicted and remains a fugitive from justice.

THE PARTIES

Plaintiffs

5. Plaintiff George Dale ("Dale") is the duly appointed Receiver of Mississippi-domiciled Franklin Protective Life Insurance Company ("FPL"), pursuant to an Order of Rehabilitation entered on May 10, 1999, by the Chancery Court of the State of Mississippi, First Judicial District, Hinds County, in the action *George Dale, Commissioner v. Franklin Protective Life Insurance Company*, No. G99-907. On June 29, 1999, an Order of Liquidation was entered against FPL.

6. Dale is the duly appointed Receiver of Mississippi-domiciled Family Guaranty Life Insurance Company ("FGL"), pursuant to an Order of Rehabilitation entered on May 10, 1999, by the Chancery Court of the State of Mississippi, First Judicial District, Hinds County, in the action *George Dale, Commissioner v. Family Guaranty Life Insurance Company*, No. G99-909. On June 29, 1999, an Order of Liquidation was entered against FGL.

7. Dale is the duly appointed Receiver of Mississippi-domiciled First National Life Insurance Company of America ("FNL"), pursuant to an Order of Rehabilitation entered on May 10, 1999, by the Chancery Court of the State of Mississippi, First Judicial District, Hinds County, in the action *George Dale, Commissioner v. First National Life Insurance Company of America*, No. G99-908. On June 29, 1999, an Order of Liquidation was entered against FNL.

8. Plaintiff Paula A. Flowers (“Flowers”) is the duly appointed Receiver of Tennessee-domiciled Franklin American Life Insurance Company (“FAL”), pursuant to an Order of Rehabilitation entered on May 11, 1999, by the Chancery Court of the State of Tennessee, Twentieth Judicial District, Davidson County, in the action *State of Tennessee, ex rel. Paula A. Flowers v. Franklin American Life Insurance Company*, No. 99-1326-II. On October 25, 1999, an Order of Liquidation was entered against FAL.

9. Plaintiff Scott B. Lakin (“Lakin”) is the duly appointed Receiver of Missouri-domiciled International Financial Services Life Insurance Company (“IFS”), pursuant to an Order of Rehabilitation entered on May 12, 1999, by the Circuit Court of the State of Missouri, Cole County, in the action, *Scott B. Lakin, Director v. International Financial Services Life Insurance Company*, No. CV199-623CC. On November 30, 1999, an Order of Liquidation was entered against IFS.

10. Plaintiff Carroll Fisher (“Fisher”) is the duly appointed Receiver of Oklahoma-domiciled Farmers and Ranchers Life Insurance Company (“FRL”), pursuant to an Order of Rehabilitation entered on May 21, 1999, in the action *State of Oklahoma, ex rel. Carroll Fisher v. Farmers and Ranchers Life Insurance Company*, No. CJ-99-3401. On January 14, 2000, an Order of Liquidation was entered against FRL.

11. Plaintiff Mike Pickens (“Pickens”) is the duly appointed Receiver of Arkansas-domiciled Old Southwest Life Insurance Company (“OSL”) (FPL, FGL, FNL, FAL, IFS, FRL and OSL are collectively referred to as the “Insurance Companies.”), pursuant to an Order of Rehabilitation entered on June 4, 1999, by the Circuit Court of the State of Arkansas, Seventh

Division, Pulaski County, in the action *Mike Pickens, Commissioner v. Old Southwest Life Insurance Company*, No. 99-4541. No Order of Liquidation has been entered against OSL.

Defendants

12. Defendants Bear Stearns & Co., Inc. and Bear Stearns Securities Corp. (collectively “Bear Stearns”) are financial institutions that offer, among other things, investment banking, securities trading, and brokerage services to their clients. Both entities are Delaware corporations with their principal places of business in New York, New York.

13. Defendant Thomas Blair is a natural person and citizen of the United States, residing in Connecticut. From at least 1996 through 2001, Blair was employed by Bear Stearns in its New York office. For at least a portion of his employment term at Bear Stearns, Blair held the position of Managing Director. From 1997 through 1999, while employed at Bear Stearns, Blair was associated with Frankel and assisted him in his scheme as alleged herein.

JURISDICTION AND VENUE

14. This Court has subject matter jurisdiction over the claims asserted herein pursuant to 28 U.S.C. §§ 1331, 1332 and 1367, and the Racketeer Influenced and Corrupt Organizations Act (“RICO”), 18 U.S.C. § 1961, *et. seq.*

15. This Court has personal jurisdiction over Bear Stearns because it is domiciled in New York and over Blair pursuant to CPLR § 302.

16. Venue is proper in this district under 28 U.S.C. § 1391(b) because Bear Stearns resides in this district and a substantial part of the events giving rise to the claims herein occurred in this district.

FACTUAL ALLEGATIONS

17. Each of the Insurance Companies Frankel looted is now insolvent. Plaintiffs are the court-appointed receivers for the Insurance Companies. As receivers, Plaintiffs are charged with the administration of the estates of the insolvent Insurance Companies and have been ordered to locate, marshal, take into possession and distribute to policyholders and creditors all assets of the Insurance Companies. Plaintiffs are vested by law with the title to all assets and causes of action and with the authority to prosecute any action which may exist on behalf of each of the Insurance Companies, as well as on behalf of their creditors, policyholders and shareholders, against any culpable parties.

18. Insurance is a regulated business. All states require that any change of control for an insurance company be approved by insurance regulators in the state in which the company is domiciled, through the process of filing a “Form A.” The proposed acquiring entity must file an application for change of control that includes information about, among other things, the identity and background of the ultimate controlling party, the nature, source and amount of consideration to be paid for the acquisition, and the future plans for the company. It is a criminal offense to willfully or knowingly make false statements in connection with a Form A application.

19. Insurance laws and regulations also require that each insurance company file an Annual Statement each year. The Annual Statement must disclose financial information relating to the insurance company, including information relating to its assets, liabilities and investments. It is a criminal offense for an insurance company director to subscribe to an Annual Statement knowing it to contain any material false statement.

20. Despite these regulations requiring disclosure, it was essential to the success of Frankel's scheme that regulators and acquisition targets not know of his role in the funding, acquisition and operation of the Insurance Companies. Secrecy was essential from the very beginning of Frankel's scheme because Frankel planned to use stolen funds to make his insurance company purchases. As the scheme expanded, secrecy was essential because Frankel used funds looted from his insurance companies to purchase new insurance companies. Moreover, at the time Frankel began using insurance companies in connection with his scheme, he was the subject of a Securities and Exchange Commission enforcement action in *Securities and Exchange Commission v. PDS Securities International, Inc., et al.*, No. 91 C 5413 (N.D. Ill.). In 1992, an Order of Permanent Injunction and Other Equitable Relief was entered permanently enjoining Frankel from trading securities and from associating with any broker dealer, investment advisor or securities dealer. The enforcement action and Frankel's bar from the securities industry would have disqualified him from owning or operating insurance companies. Discovery of these facts would have disrupted his plans and brought an end to his scheme.

21. So, to permit his acquisition of the Insurance Companies while concealing his involvement, Frankel, acting with the assistance of at least Hackney, Jordan and Atnip, formed an entity known as the Thunor Trust in 1991, through which Frankel could acquired insurance companies. The final version of the trust documents listed three persons as grantors, although none of them actually contributed any money to the trust. They were nominees of and were controlled by Frankel. Hackney was named the sole Trustee of Thunor

Trust and held out in regulatory filings as the controlling person of the trust, but at all relevant times Frankel actually controlled Thunor Trust and its assets.

22. Frankel also secretly owned and controlled a registered broker-dealer firm named Liberty National Securities (“LNS”). At Frankel’s direction, Hackney and others misrepresented to regulators and others that investments made with the assets of the Insurance Companies were held by LNS. Frankel and others fabricated hundreds of trade slips and account statements to give the impression that LNS had custody of the Insurance Companies’ assets and traded them for substantial profit. This bogus asset and trading information was periodically reflected in Annual Statements and audits of the Insurance Companies submitted to insurance regulators.

Frankel Loots FAL’s Assets Through an Account at Bear Stearns.

23. According to well-established financial services industry practice, entities such as Bear Stearns are obligated to guard against customers using their accounts to launder money or otherwise engage in or conceal unlawful activity. To that end, industry standards require financial services providers to “know their customers” – to use due diligence to learn the essential facts relative to every customer and the kinds of transactions in which they would be expected to engage, and to recognize, detect, stop and refrain from participating in transactions that indicate money laundering or other illegal activity. Broker-dealers must “know their customers” so that accounts can be monitored for transactions that are inconsistent with a particular customer’s normal and expected activities. Broker-dealers such as Bear Stearns are obligated to be alert to suspicious activity that would constitute red flags, warning them of possible money laundering, and to know whether the assets invested through

brokerage firms have been obtained legitimately. Bear Stearns has adopted internal policies and procedures that embody such “know your customer” and anti-money laundering practices.

24. In 1991, Frankel caused Thunor Trust to enter into an agreement to purchase a majority interest in Franklin American Corporation (“FAC”), which was the sole shareholder of FAL. Thunor Trust filed a Form A application with the Tennessee Department of Commerce and Insurance (“Tennessee Department”) which concealed Frankel’s interest in and control of Thunor Trust and his plans to control FAC and FAL. In reliance on the misinformation in the Form A application, the Tennessee Department approved the acquisition on October 7, 1991.

25. Within two weeks of Frankel’s acquisition of FAL, Hackney – whom Frankel installed as President of FAL– opened an account at Bear Stearns at Frankel’s direction. According to account opening documents signed by Hackney, Hackney represented that FAL’s entire liquid net worth was \$15 million. Hackney also represented that FAL’s investment goal for the Bear Stearns account was “growth and income.” However, as illustrated by the activity in the account during the brief time it was open, FAL did not use the account for investment purposes at all. Rather, in the course of just a few weeks, Frankel successfully looted all of FAL’s liquid assets through the Bear Stearns account.

26. On October 23, 1991, Hackney caused \$1,437,000 in cash from FAL’s account at First Tennessee Bank, N.A. (“First Tennessee”) to be wired into the Bear Stearns account. On the same day, approximately \$16,650,000 of securities held by FAL were transferred to the Bear Stearns account.

27. Thereafter, at Frankel's direction, Hackney instructed Bear Stearns to sell the securities held in the FAL account and, within two weeks, the majority of the securities were liquidated to cash.

28. On November 8, 1991, at Frankel's direction through Hackney, \$17.9 million – an amount in excess of FAL's entire liquid net worth as disclosed to Bear Stearns – was wire transferred from the Bear Stearns account to an account at Chemical Bank. From there the funds were wired to an account at Fidelity Investments, and finally to a house account for Frankel's benefit at Banque SCS Alliance ("Alliance") in Geneva, Switzerland.

29. By the end of November, 1991, the FAL account at Bear Stearns had a cash balance of only \$386,678. On December 2, 1991, at Frankel's direction, Hackney wired an additional \$297,323 in cash to FAL's Bear Stearns account from the First Tennessee account. Four days later, at Frankel's direction through Hackney, Bear Stearns wired \$540,000 from the Bear Stearns account to Chemical Bank, and ultimately to Frankel's account in Switzerland.

30. After laundering them through Alliance, Frankel used the funds he had looted from FAL through the Bear Stearns account to pay back approximately \$11 million he had earlier stolen from other unrelated investors.

31. On February 19, 1992, at Frankel's direction through Hackney, the remaining \$169,487.81 in the FAL Bear Stearns account was wired to Sovran Bank, and ultimately to Frankel's account in Switzerland.

32. There was no activity in the FAL Bear Stearns' account between March 1992 and October 1992. On October 9, 1992, at Frankel's direction, Hackney purchased a

\$250,000 Fannie Mae bond and then sold it, four days later, on October 13, 1992, for no profit. On information and belief, Hackney closed the FAL Bear Stearns account shortly thereafter, without any “growth and income investing” ever having taken place in the account.

Frankel Opens Additional Accounts at Bear Stearns to Use for Money Laundering.

33. On November 15, 1991, Alliance arranged, on Frankel’s behalf, the incorporation of a company called Bloomfield Investments Ltd. (“Bloomfield BVI”) in the British Virgin Islands. Shortly thereafter, on November 21, 1991, Frankel opened account number 70026 at Alliance in the name of Bloomfield BVI. Frankel was the sole beneficiary of and the sole person authorized to give directions relating to this account.

34. During February 1992, William Carik (“Carik”) of Bear Stearns’ Chicago office, opened six new securities and commodities accounts for Frankel. Four accounts were in the name of Bloomfield BVI. Bloomfield BVI was disclosed to Bear Stearns as having been incorporated in the British Virgin Islands, a well known money laundering haven. Frankel named “Eric Jensen” as President, Secretary, and Treasurer and “David Rosse” as Vice President, and used Jean Marie Wéry (“Wéry”) of Alliance as a banking reference. Frankel represented that Bloomfield BVI had been incorporated on November 15, 1991 and that it had \$15.6 million in liquid assets. In March 1992, Bear Stearns made several attempts to communicate with Bloomfield BVI’s administrative and domiciliary agents in the British Virgin Islands. Those agents refused to respond to Bear Stearns’ inquiries. Had Bear Stearns further investigated, it would have found that Frankel nominally had nothing to do with Bloomfield BVI. The directors and officers of the company were François Demage, Veritas, Ltd., and Seaway Services, Ltd.

35. The other two accounts opened through Carik were in the name of Bloomfield Investments, S.A. (“Bloomfield S.A.”). Bloomfield S.A. was incorporated in Switzerland, which was, at that time, also well known in the securities industry as a money laundering haven. Frankel again listed “Eric Jensen” as the President, Secretary, and Treasurer and “David Rosse” as Vice President. Frankel again listed Wéry at Alliance as his banking reference. Frankel represented that Bloomfield S.A. had been incorporated in 1982 and that it had \$2.8 million in annual income and a net worth of \$11.3 million. On information and belief, Bear Stearns did not conduct any due diligence on Bloomfield, S.A. Had it done so, it would have discovered that no company named “Bloomfield S.A.” ever existed until 1992, that Bloomfield S.A. was a wholly-owned subsidiary of Bloomfield BVI, that its sole director was an Alliance employee, Michel Lanier, and that no one named “Jensen” or “Rosse” officially held officer positions.

36. Frankel represented that the investment objective for both the Bloomfield S.A. and Bloomfield BVI accounts was “trading profits.” Frankel also represented that both Bloomfield S.A., which had purportedly been in existence since 1982, and Bloomfield BVI, which had been in existence for only three months, had five years extensive experience in trading stocks, bonds, options and commodities.

37. Frankel caused numerous transactions to occur for no apparent business purpose in and among the various Bloomfield accounts, only one of which was capable of producing any “trading profits.” These took the form of: transfers between commodities and securities accounts belonging to Bloomfield BVI; transfers between commodities and securities accounts belonging to Bloomfield S.A.; and transfers between Bloomfield BVI and

Bloomfield S.A. accounts. For example, on February 14, 1992, \$6 million was transferred into Bloomfield S.A. account, number 100-30650, from an account Frankel controlled in Switzerland. This \$6 million was a portion of the funds stolen from the FAL Bear Stearns account. On February 21, 1992, after Frankel opened the second Bloomfield S.A. account at Bear Stearns, number 102-10460, he directed the transfer of the \$6 million from Bloomfield S.A. account 100-30650 to Bloomfield S.A. account 102-10460. The cash sat in the account until July 13, 1992, when Frankel finally directed the purchase of \$6,750,000 in T-Bills.

38. On information and belief, Carik questioned the wire transfers involving the Bloomfield S.A. accounts and sought advice about these transfers from Bear Stearns' counsel, Barbara Bishop. Despite these questions, Bear Stearns accepted the wire transfers and allowed Bloomfield S.A. to maintain its accounts.

Bear Stearns Becomes Suspicious of Frankel, But Continues to Allow Him to Open Accounts.

39. Between June and November 1992, Frankel, posing as "Jensen" and "Rosse," sent four letters to Bear Stearns changing the authority to direct transactions in the Bloomfield accounts. For example, on June 22, 1992, "Jensen" and "Rosse" sent a letter to Carik informing him that both Jensen's and Rosse's signatures were required to authorize withdrawals from the Bloomfield BVI and Bloomfield S.A. accounts. On July 16, 1992, "Jensen" and "Rosse" sent another letter to Carik informing him that Rosse had sole authorization to withdraw funds from either entity's accounts.

40. On or about July 27, 1992, Carik transferred responsibility for the Bloomfield accounts to Bear Stearns broker William Marcus ("Marcus") of the Chicago office. The

change of brokers was purportedly based on Frankel's desire for a broker in the futures department, although Frankel never engaged in futures trading in any of his accounts at Bear Stearns. In a memorandum documenting the account transfer, Carik advised Marcus: "I am skeptical about these people because I don't know them and suggest you use caution when dealing with them." Carik made Marcus countersign the memorandum containing this warning.

41. On October 19, 1992, the \$6,750,000 in T-Bills held in the Bloomfield S.A. account were sold. On October 23, 1992, the proceeds from the sale of the T-Bills were wired, at Frankel's direction, to his account in Switzerland.

42. On December 23, 1992, the remaining balance in the Bloomfield S.A. account was also wired to Frankel's account in Switzerland. Despite the stated purposes for these accounts, no significant trading ever occurred in any of the Bloomfield accounts.

43. Despite Carik's earlier cautions, and despite the uncertainty surrounding persons authorized to transact business in the Bloomfield accounts, Marcus arranged for "Rosse" to open another account at Bear Stearns, on December 3, 1992, in the name of Fortune Investissements, S.A. ("Fortune S.A."), another Swiss corporation. "Rosse" represented that he was the President and sole owner and that Fortune S.A. had \$12 million in assets, all cash.

44. Marcus wrote a memorandum to Ronald Hersch of Bear Stearns on December 18, 1992, relating to Fortune S.A. Although the account opening documents represent that Fortune S.A. had been incorporated on January 15, 1992, Marcus related that, according to "Rosse," Fortune S.A. was a reorganization of the Bloomfield companies. Marcus explained

“Rosse” had been a senior officer in Bloomfield S.A. and admitted that the only “trading” activity in the Bloomfield account was a purchase of \$6.75 million in T-Bills. Nevertheless, Marcus stated that “in my discussions with Rosse he has proven very knowledgeable in all respects concerning the futures business, and I believe he is a sophisticated investor.” Marcus also stated that “Rosse” stated he was going to send in \$8.5 million for his opening transaction. No activity ever occurred in the Fortune S.A. account.

45. On February 19, 1993, “Rosse” opened two new accounts through Marcus in the name of Ba-Gio Investments, S.A. (“Ba-Gio”), yet another Swiss corporation, for which “Rosse” was again listed as President. One was a securities account and the other was a commodities account. The stated investment objectives of these accounts, respectively, were “trading profits” and “speculation.”

46. Scott Adams of Bear Stearns conducted a review of a proposed \$2 million futures margin limit for Ba-Gio on March 8, 1993. “Rosse” had represented to Marcus that he would wire \$8 million on March 8, 1993. The Credit Department recommendation was to “approve limit as requested based on funds to be received.” According to the information provided to Adams, presumably by Marcus, Ba-Gio was a “bank-like finance company” that was a “licensed securities trader” that “trades actively in equities, straight and convertible bonds, derivatives and other financial instruments on major financial markets.” On information and belief, Bear Stearns did not conduct any due diligence on Ba-Gio. Had it done so, it would have learned that Ba-Gio was not licensed in the United States or elsewhere as a securities trader.

47. Despite “Rosse’s” representations to Marcus, no significant amount of funds was wired into the Ba-Gio account until much later. On September 30, 1993, Frankel wire transferred \$4 million from his Swiss bank account into the Ba-Gio commodities account at Bear Stearns. The funds were then transferred to the Ba-Gio securities account, and on October 22, 1993, Frankel directed Bear Stearns to purchase \$4 million in T-Bills. He held those T-Bills until January 20, 1994, when he directed that they be sold. On January 24, 1994, Frankel purchased another \$4 million in T-Bills in the securities account. On February 23, 1994, he sold the T-Bills in the securities account, the proceeds were transferred into the commodities account, and Frankel then directed the proceeds to be wire transferred to his account in Switzerland.

48. At Frankel’s direction, Bear Stearns provided duplicate copies of confirmations for the Ba-Gio account to Wéry at Alliance, which had been identified as the custodian bank for Ba-Gio, even though Ba-Gio did not hold an account at Alliance.

49. On March 3, 1994, Frankel wired \$2.9 million into the Ba-Gio commodities account at Bear Stearns from his account in Switzerland and held it in cash. Again, despite the stated purpose for this account, Frankel never directed any trades in it, although he did direct millions of dollars of cash transfers into and out of the account to and from Alliance in Switzerland. The account remained open even after Frankel was arrested in Germany in September 1999.

Frankel Continues to Acquire and Loot Insurance Companies.

50. Beginning in early 1994, Frankel began to expand his insurance empire by acquiring additional insurance companies through Thunor Trust. In each acquisition, Frankel

concealed his interest in and control of Thunor Trust and his plans to control the insurance company being acquired. Typically, within weeks of each acquisition, Frankel liquidated the insurance company's assets and transferred the funds to his account in Switzerland.

51. On February 28, 1994, Frankel acquired FGL; on March 15, 1994, \$6,000,000 of FGL's assets were transferred to Frankel's account in Switzerland. On March 31, 1994, Frankel acquired FRL; by April 20, 1994, over \$8,000,000 of FRL's assets were transferred to Frankel's account in Switzerland. On July 1, 1994, Frankel acquired IFS; over the course of the next four years, over \$80,000,000 of IFS' funds were transferred to Frankel's account in Switzerland. In early 1995, Frankel acquired FPL; on March 21, 1995, over \$6,000,000 of FPL's funds were transferred to Frankel's account in Switzerland. On February 17, 1998, Frankel acquired FNL; on April 17, 1998, over \$93,000,000 of FNL's funds were transferred to Frankel's account in Switzerland, and on April 12, 1999, over \$44,000,000 of FNL's funds were transferred to Frankel's account in Switzerland. In total, approximately \$159,000,000 was looted from FNL. In February 1999, Frankel acquired OSL; on April 6, 1999, over \$5,000,000 of OSL's funds were transferred to Frankel's account in Switzerland.

52. At all relevant times, all of the balances in Frankel's Swiss account consisted exclusively of looted funds of the Insurance Companies or proceeds thereof.

Frankel Launders Insurance Company Funds Through the Ba-Gio Account and Other Accounts at Bear Stearns.

53. In April 1994, Ba-Gio purportedly changed its U.S. business office to New York. This change coincided with Frankel moving his base of operations from Toledo, Ohio

to Greenwich, Connecticut, where he acquired and rented several adjacent, large properties containing residential homes.

54. At the time of the move, Ba-Gio's account executive was changed from Marcus to Judith Woodard of Bear Stearns' New York office. Woodard paid little attention to the activity in the Ba-Gio account, which allowed Frankel to make several large-dollar circular transactions in the account. A circular transaction is a transaction where funds are moved from one account through another account and back to the original account, a type of transaction for which there is no apparent business purpose and that is well known in the securities industry as an indication of possible money laundering.

55. For example, on December 5, 1994, Frankel directed Bear Stearns to wire \$2.6 million out of the Ba-Gio commodities account to Frankel's account in Switzerland. On December 9, 1994, \$3 million was wired back into the commodities account from Frankel's account in Switzerland. On March 13, 1995, Frankel directed Bear Stearns to wire \$2.4 million out of the Ba-Gio commodities account to Frankel's account in Switzerland and, on March 24, 1995, \$3 million was wired back in from Frankel's account in Switzerland. On November 9, 1996, Frankel directed Bear Stearns to wire \$2 million out of the Ba-Gio commodities account to Frankel's account in Switzerland and, on November 27, 1996, nearly \$2 million was wired back from Frankel's account in Switzerland.

56. In July 1996, Woodard opened another account for "Rosse," this time in the name of Bradshaw Enterprises ("Bradshaw"), a Marshall Islands corporation. "Rosse" was listed as the President and sole beneficial owner of Bradshaw. The Marshall Islands are well known in the securities industry as a money laundering haven. At around the same time,

“Rosse” attempted to open an account at Merrill Lynch in the name of Bradshaw. Merrill Lynch refused to open the account because it would not conduct business with Frankel through an entity incorporated in the Marshall Islands.

57. The stated investment objective of the Bradshaw account was “trading profits.” Frankel, however, did not place any trades through the account and in fact, scarcely used it at all. To the extent he did use the account, it was to temporarily park cash. On August 27, 1996, Frankel caused approximately \$66,000 from his Alliance account to be transferred through Chase Manhattan Bank and into the Bear Stearns Bradshaw account. The cash sat in the account until October 15, 1996, when Bear Stearns wired it back to Frankel’s account at Alliance.

58. Woodard opened two more accounts for “Rosse” in September 1996, in the name of Columbus Investment Fund, Ltd. (“Columbus”). The stated investment objective of the Columbus accounts was also “trading profits.” Columbus was incorporated in the British Virgin Islands, another well known money laundering haven. “Rosse” was named as the President and Investment Manager for Columbus. Like Ba-Gio, Columbus opened both a securities account and a commodities account. As with the Ba-Gio accounts, many of the transactions in the Columbus accounts involved intermediate transfers between the Columbus commodities and securities accounts.

59. “Rosse” provided Woodard an “Offering Memorandum” dated August 29, 1996 for Columbus, which presented Columbus as an investment vehicle to be sold to third party investors. The document described Columbus as “an open-ended investment company” specializing in “identifying short-term trading opportunities in a wide variety of securities and

derivatives.” According to the memorandum, Columbus’ primary focus was to invest in “equities of U.S. and international companies.” On September 27, 1996, Larry Youell of Bear Stearns gave “futures compliance approval” to accept the Columbus Offering Memorandum.

60. According to the Offering Memorandum, Barclays Private Bank and Trust (BVI) (“Barclays”) was the Administrator for Columbus. The Offering Memorandum explained that Columbus’ primary bank accounts would be held at Barclays and that transfers of Columbus’ assets to brokerage firms such as Bear Stearns where Columbus maintained trading accounts would be via wire transfer from those Barclays’ accounts. However, contrary to this representation, wire transfers to the Columbus Bear Stearns accounts did not originate from Barclays accounts but rather, like all of Frankel’s other accounts, from his account at Alliance in Switzerland.

61. On October 8, 1996, \$66,601 was wire transferred from Frankel’s account in Switzerland to the Columbus Bear Stearns account. On January 21, 1997, an additional \$39,985 was wire transferred from Frankel’s account in Switzerland to the Columbus account. On February 23, 1997, \$107,000 was wired out of the Columbus Bear Stearns account to Frankel’s account in Switzerland.

62. In August 1997, “Rosse” advised Woodard that Columbus had changed its name to Jupiter Capital Growth Fund, Ltd. (“Jupiter Capital”). The name on the Bear Stearns Columbus accounts was changed accordingly.

63. On October 23, 1997, \$10,000,000 was transferred from Frankel’s account in Switzerland to the Jupiter Capital commodities account. The wire transfer documents did not

identify the transferor, stating only that the funds came from “one of our [*i.e.* Alliance’s] clients.” This is another well known indication of possible money laundering. On October 24, 1997, Frankel transferred \$9,875,000 to the Jupiter Capital Securities account and purchased T-Bills. On January 22, 1998, Jupiter Capital redeemed those T-Bills and purchased \$10,000,000 more in T-Bills. On February 27, 1998, Jupiter Capital sold the second \$10,000,000 of T-Bills. That same day, the proceeds from the sale of the T-Bills were wire transferred to Frankel’s account in Switzerland.

Bear Stearns Employees Burgess and Blair Begin Their Involvement With Frankel.

64. After Frankel relocated to Connecticut, he retained a local individual named John Paul Van Den Broek (“Van Den Broek”) to help him with computer projects. Specifically, Van Den Broek developed for Frankel a computer program to generate bogus trade slips and account statements that were sent to the Insurance Companies. These fabricated documents gave the impression that Frankel’s “front” brokerage firm, LNS, had custody of, and was trading for substantial profits, the assets of the Insurance Companies. Van Den Broek was suspicious of Frankel’s highly secretive nature and discussed this with his friend and Frankel’s close associate Sonia Howe (“Howe”). In response, Howe told Van Den Broek about the SEC order barring Frankel from the securities industry.

65. During 1996, Frankel wanted to substantially upgrade the computer program, but Van Den Broek did not have the expertise to do it. Van Den Broek knew that his then best friend, C. Mark Burgess (“Burgess”), would be capable of completing the upgrade and introduced Burgess to Frankel. From the time he met Frankel until September 10, 1998,

Burgess was an employee of Bear Stearns (on information and belief, he was a securities broker).

66. Burgess began developing the upgraded computer program for Frankel in 1996, spending substantial amounts of time at Frankel's compound. The computer program needed regular maintenance and improvement, and Burgess continued associating with and visiting Frankel until Frankel fled in May, 1999. Through his programming work for Frankel, Burgess had access to all of the data used to generate the bogus trading documents, including the name LNS and the names of the Insurance Companies. Burgess knew that Frankel used multiple aliases, secretly owned and controlled the Insurance Companies and their assets, and secretly owned and controlled LNS. On information and belief, Burgess knew from Van Den Broek or from other sources that the SEC had barred Frankel from the securities industry.

67. During this period of time, Frankel paid Burgess for his computer services, and at some point began paying Burgess \$10,000 per month. Burgess received these payments in blank travelers checks and, in one instance, via wire transfer directly from Frankel's Swiss bank account. The use of blank travelers checks is a common practice among money launderers. In total, Burgess received tens of thousands of dollars from Frankel in this manner. Beginning in March 1998, Burgess' fiancé at the time, Elizabeth Blair, also received tens of thousands of dollars in blank travelers checks. Burgess and Elizabeth Blair were married on September 11, 1998. Frankel attended the wedding.

68. In 1997, Burgess introduced Frankel to his fiancé's brother and very close friend, Thomas Blair ("Blair"). Blair was employed at Bear Stearns as a Managing Director of its "Financial Services Division." Blair knew Frankel had extraordinary amounts of money

at his disposal, and Blair was anxious to use his connection with Frankel to generate lucrative business for himself and Bear Stearns.

69. Blair visited Frankel at the Connecticut compound on many occasions. Like Burgess, Blair knew Frankel by his real name, and Blair knew that Frankel used multiple aliases, including in connection with his accounts at Bear Stearns and other financial institutions. Blair knew that Frankel secretly owned and controlled the Insurance Companies and their assets, as well as LNS and, on information and belief, knew that the SEC had barred Frankel from the securities industry.

Frankel Launders Part of the \$93 Million Stolen From FNL Through Bear Stearns.

70. Soon after Frankel secretly acquired FNL in February 1998, he began liquidating and looting over \$93 million of that company's invested assets. As part of that effort, Frankel directed Blair to open an account at Bear Stearns in April 1998 for FNL, which Blair knew to be an insurance company secretly acquired and controlled by Frankel. The account opening documents were incomplete and appear to have been prepared hastily. Gary Atnip, FNL's Chief Financial Officer, was the person officially designated as having authority to transact business in the account.

71. On April 16, 1998, Frankel directed the transfer into the account and immediate sale of 500,000 Liquid Air debentures. On information and belief, Blair knew this was part of a total liquidation of FNL's invested assets by Frankel. The sale of the Liquid Air debentures was made on instructions from Miriam Rosen (a/k/a Miriam Fischer), one of Frankel's co-conspirators at his Connecticut compound. Rosen was not authorized to transact business in the FNL account, and as Blair knew, was not even an FNL employee. Blair knew

that all directions concerning the FNL account originated with Frankel, who was also not authorized to transact business in the FNL account. The FNL account at Bear Stearns remained open until at least May 1999.

72. On April 17, 1998, Frankel caused \$93 million belonging to FNL, including the proceeds from the sale of the Liquid Air debentures, to be transferred from that company's account at First Tennessee Bank, through a series of intervening transfers, to Frankel's account in Switzerland. He then immediately began to move the funds around so they could not be traced. In 1997, Frankel had opened an account at Merrill Lynch in the name of Jupiter Capital using the alias "David Rosse." "Rosse" spent substantial time talking to the Merrill Lynch broker about "Rosse's" supposed trading experience. As of April 1998, however, despite the numerous conversations with Merrill Lynch's broker, "Rosse" had not done any trading in the account.

73. On April 21, 1998, Frankel attempted to wire \$90 million from his account in Switzerland to Jupiter Capital's account at Merrill Lynch. Because "trading" was the stated purpose of the account in the account opening documents and there had not been any trading in the account, and because the transfer looked suspicious, Merrill Lynch ultimately refused to accept the wire transfer. One week later, on April 28, 1998, Frankel attempted to wire \$50 million from his account in Switzerland to Jupiter Capital's account at Merrill Lynch. Again, Merrill Lynch refused to accept the wire transfer. Suspicious of this activity, Merrill Lynch closed the Jupiter Capital account and refused to do further business with "Rosse."

74. On the same day Frankel unsuccessfully attempted to wire \$50 million to Jupiter Capital's Merrill Lynch account, Frankel successfully wired \$40 million of FNL's

looted funds to Jupiter Capital's Bear Stearns commodities account from his Swiss bank account. The transferor was identified by Alliance only as "one client." Unlike Merrill Lynch, Bear Stearns accepted the wire transfer. Then, at "Rosse's" direction, Bear Stearns transferred \$39,400,000 from the Jupiter Capital commodities account to the Jupiter Capital securities account, where it was used to purchase T-Bills on April 29, 1998.

75. Just one week later, on May 8, 1998, Frankel directed the sale of the T-Bills in the Jupiter Capital securities account at Bear Stearns and the transfer of the cash proceeds to the Jupiter Capital commodities account, and then to Switzerland. "Rosse" sent wire transfer instructions to Woodard providing that the funds should be wired to Bloomfield BVI's Alliance account (number 70026) for final credit to Jupiter Capital. Woodard forwarded these instructions to other employees at Bear Stearns, who concluded that Bear Stearns could not process the wire transfer from a Jupiter Capital account at Bear Stearns to the Bloomfield BVI account in Switzerland but, rather, could only send the funds to another Jupiter Capital account.

76. In reaction to this, on the same day, Frankel sent new instructions directing that the transfer be made to the same account at Alliance – number 70026 – but he simply altered the instruction to characterize the account as belonging to "Jupiter Capital," rather than Bloomfield BVI. Bear Stearns wired the \$40 million that day pursuant to these instructions.

77. Woodard advised several members of Bear Stearns' upper management, including Managing Director Lawrence Donohue, Larry Youell, and counsel Thomas Cohen

(“Cohen”), that she was concerned about transactions in the Jupiter Capital accounts. As a result, Bear Stearns began an investigation into Woodard’s concerns about “Rosse.”

78. On May 11, 1998, Donohue advised “Rosse” that Bear Stearns was revoking its Futures Customer Agreements relating to the Ba-Gio, Bradshaw, Columbus and Jupiter Capital accounts. Donohue did not state any reasons for Bear Stearns’ decision. Donohue stated that Woodard had been instructed not to accept any instructions to transact in any futures or futures option products from that point forward (although no such transactions had ever occurred in any of the accounts). Donohue further stated that Woodard had been advised to help “Rosse” arrange for the transfer of balances remaining in any of the accounts to other financial institutions.

Bear Stearns Continues Its Relationship With Frankel Despite the Suspicious Activity in the Jupiter Capital Account.

79. When Blair learned that Woodard and others at Bear Stearns suspected Frankel of money laundering, he feared the possible loss of a lucrative client for himself and Bear Stearns and promptly took steps to make his supervisors and co-workers at Bear Stearns comfortable with “Rosse.” The first action Blair took was to speak to Michael Lorig (“Lorig”), the Director of Bear Stearns’ Futures Department, about replacing Woodard with a new account executive assigned to “Rosse’s” accounts. Despite Donohue’s May 11, 1998 letter advising “Rosse” that Bear Stearns was closing his futures accounts, on June 4, 1998, Donohue sent an e-mail message to Woodard advising her that the Jupiter Capital account would be reassigned.

80. Frankel ingratiated himself to Woodard by taking her to dinner and purchasing artwork in excess of \$7000 from her lover. Frankel may have also transferred funds to Woodard (or for Woodard's ultimate benefit) from his Swiss bank account.

81. On information and belief, Blair suggested to Bear Stearns that they contact Wéry at Alliance as a reference for "Rosse." On June 5, 1998, Bear Stearns in-house attorney Cohen had a telephone conversation with Wéry regarding "Rosse." Wéry advised Cohen that he had known "Rosse" since 1986, and that "Rosse" had been banking with Alliance since 1990. Wéry also told Cohen that "Rosse" only managed his own funds and did not manage investments for any third parties. Wéry explained that "Rosse" was a "short term trader" whose investments were based upon immediate access to pricing services and news services, and that Rosse had approximately \$80-100 million in assets on deposit at Alliance. Wéry's representations should have been immediately suspect soon thereafter when Cohen spoke to Otto Scherzinger, Managing Director of Bear Stearns' Geneva office, about Alliance. Scherzinger told Cohen that Alliance catered to "aggressive" investors and that he would be "surprised" if any individual had more than \$10 to 20 million on deposit at Alliance.

82. Representatives of Bear Stearns knew or should have known that certain of Wéry's other statements also contradicted information "Rosse" had provided to Bear Stearns. According to the Columbus/Jupiter Capital Offering Memorandum in Bear Stearns' files, "Rosse" was the Investment Manager for the fund, which was soliciting investments from third parties. Also, the lack of trading activity in "Rosse's" accounts belied the notion that he was a "short term trader."

83. Despite this, Bear Stearns continued to do business with “Rosse.” On July 7, 1998, Donohue signed a Report of New Account for Jupiter Capital for account number 055-42010. On July 17, 1998, Blair faxed to Frankel from his Bear Stearns office instructions on how to wire money into the new Jupiter Capital futures account. Blair and Lorig took over responsibility for the account relationship. On information and belief, Blair shared with Lorig his knowledge about “Rosse.”

84. Lorig became personally involved with Frankel and spoke with him directly. Sometime in the fall of 1998, in connection with the Jupiter Capital account, Blair arranged a meeting between Lorig and Wéry of Alliance at Bear Stearns’ offices in New York. On information and belief, part of the purpose of this meeting was to discuss mutual business opportunities relating to Frankel. After this meeting, Lorig traveled to Geneva in October 1998 and had dinner with Wéry, at which they discussed “new futures account and getting it open.”

Blair and Bear Stearns Assist Frankel’s Efforts to Acquire Additional Insurance Companies.

85. In 1998, Burgess and Blair learned that Frankel was planning to undertake a massive new insurance company acquisition program, largely through American Life Acquisitions, LLC and related entities (collectively, “ALA”). ALA was a vehicle through which Frankel intended to complete the acquisitions while concealing his involvement, funding and control. ALA was nominally headed by Larry Martin (“Martin”), although Frankel exclusively funded and controlled the operation. Early in the relationship between Frankel and Martin, Frankel asked Blair to investigate Martin. Blair believed that Martin was

a con artist, and communicated this to Frankel. Despite this, both Frankel and Blair continued to interact with Martin in connection with ALA.

86. Blair knew that: (1) the ALA business plan called for over \$1 billion of life insurance acquisitions; (2) Martin retained a number of consultants to execute the ALA plan, many of whom had extensive insurance industry and other business expertise; and (3) Martin and other ALA-related persons pursued the acquisition of roughly twenty target insurance companies. Blair also knew that Martin and ALA were involved in efforts, all directed and funded by Frankel, to establish offshore reinsurance companies and to create an elaborate European holding company structure to acquire additional life insurance business while concealing Frankel's involvement and control.

87. Blair understood that the efforts of ALA could lead to extensive, wide-ranging and lucrative business for himself and for Bear Stearns. Blair held himself out as an employee of Bear Stearns to the persons associated with ALA in the hope of obtaining such business. At one point, Blair approached Frankel with Burgess and discussed placing the two of them in charge of all insurance company acquisitions. Blair, Frankel, Martin and others also discussed using Bear Stearns to underwrite or otherwise participate in a bond issuance in connection with the activities of ALA. Blair communicated with Bear Stearns' London office in connection with this plan.

88. Blair and Bear Stearns also led one of Frankel/ALA's potential acquisition efforts. Through his contacts within Bear Stearns, Blair identified Harleysville Life Insurance Company ("Harleysville") of Pennsylvania as a potential acquisition target. Harleysville had \$163.9 million of assets, which Frankel intended to loot if the acquisition was successful.

Harleysville was, at the time, a Bear Stearns client. Bear Stearns managed some or all of Harleysville's fixed income investments and a Bear Stearns broker named Chris Haney ("Haney") oversaw the Harleysville account. Recognizing an opportunity to cross-sell services to an existing Bear Stearns client, Blair had Haney approach Harleysville about a potential acquisition by ALA. This proposed acquisition, overseen by Blair in coordination with Frankel, Martin and various of Martin's "consultants," remained an active item on the ALA agenda until Frankel fled the country in May 1999.

89. Blair worked on the proposed Harleysville acquisition (and possibly other proposed ALA-related acquisitions) even though he knew that the proposed acquiring entity, ALA, was a front for Frankel, nominally headed by a person believed to be a con artist, and that Frankel intended to conceal his involvement in the funding and control of the deal. Upon information and belief, Blair also knew that Frankel falsely stated to Harleysville that ALA had already made over \$1 billion of insurance company acquisitions, and that the capital for the acquisition would be provided by "the Cambridge Charitable Trust, a British charitable institution that has committed a large amount of capital for the purpose of acquiring life insurance assets in the United States." Through his position as a Managing Director of Bear Stearns' Financial Services Division, Blair was aware of regulatory and disclosure requirements relating to the acquisition of financial institutions such as insurance companies, and that such regulations and requirements would be violated by Frankel's proposed acquisition plans.

90. Blair also knew Frankel was attempting to acquire additional insurance companies through another front entity, the St. Francis of Assisi Foundation to Serve and

Help the Poor and Alleviate Suffering (“SFAF”). Blair knew Frankel secretly controlled and funded SFAF, and that it was misrepresented as being funded by Vatican-related entities and controlled by a board of trustees.

91. SFAF attempted to purchase at least two insurance companies, Capitol Life Insurance Company of Denver, Colorado, and Western United Life Assurance Company of Spokane, Washington. Upon information and belief, Blair offered Bear Stearns’ services to Frankel in connection with both of those attempted acquisitions.

92. In March 1999, Hackney, at Frankel’s direction, represented to Mississippi insurance regulators that SFAF had acquired FNL from Thunor Trust. This triggered a barrage of regulatory inquiries, and Frankel was forced to commission an audit of SFAF. Frankel, posing as “Rosse” and holding himself out as an “investment adviser” to SFAF, hired Leuty & Heath (“Heath”), the Insurance Companies’ public accounting firm, to perform the audit. At the time, Frankel had represented to Heath, via fabricated documents, that SFAF had hundreds of millions of dollars invested in Jupiter Capital. As Jupiter Capital was represented to be the sole repository of SFAF’s assets, accounting guidelines required Heath to perform a separate audit of Jupiter Capital in addition to the SFAF audit, which Heath did.

93. Heath had questions about the Jupiter Capital accounts at Bear Stearns. In a written outline of the transactions that “Rosse” provided Heath, Blair is identified as the “Bear Stearns Broker now on Account,” and his telephone number at Bear Stearns is provided. The outline misrepresents that all of Jupiter Capital’s funds originated from “Bradshaw Enterprises Co.,” which was inconsistent with the offering memorandum Bear Stearns had on file in connection with Jupiter Capital. As part of the audit of Jupiter Capital,

Heath corresponded with Bear Stearns, which failed to inform Heath of the true facts concerning Frankel. Heath's Jupiter Capital audit was submitted to Mississippi's regulators and others along with the SFAF audit, which contained numerous falsehoods and fabrications.

94. In 1998 and 1999, Frankel paid Blair at least \$10,000 per month. These payments were usually made in blank travelers checks, although in April 1999, Blair's then fiancé, now his wife, Michelle Casey ("Michelle Blair"), received two wire transfers directly from Frankel's Swiss bank account totaling \$45,000. Blair also used Frankel's credit cards to charge at least \$20,000 of personal expenses in the summer of 1998.

95. Blair's relationship with Frankel continued until Frankel fled the country on May 4, 1999. In fact, Blair went to Frankel's home in Greenwich, Connecticut to meet with him on Friday, May 7, 1999, the day law enforcement authorities discovered a fire at Frankel's compound in Greenwich and began to unravel Frankel's scheme. Blair was stopped by law enforcement authorities as he drove away from the compound and questioned about Frankel.

96. On information and belief, the following Monday morning, May 10, 1999, Blair made inquiries at Bear Stearns to obtain copies of the original account documentation for the Jupiter Capital account.

97. After hiding out in Italy and Germany, Frankel was finally arrested in Hamburg, Germany in September 1999, and was extradited to the United States in March 2001.

98. After Frankel fled and the Insurance Companies were placed in receivership, it was discovered that, in the aggregate, assets and funds substantially in excess of \$200,000,000 were fraudulently and wrongfully looted from the Insurance Companies by Frankel, and laundered and dissipated, with the assistance of others, including defendants. In addition, the Insurance Companies suffered significant underwriting and related business losses while under the control of Frankel, Hackney and others. Many of these assets and funds of the Insurance Companies have not been, and are not likely to be, recovered. As a result of the activities alleged herein, the Insurance Companies were financially damaged and placed into receivership in their respective states of domicile – Mississippi, Tennessee, Missouri, Oklahoma, and Arkansas.

GENERAL RICO ALLEGATIONS

The Enterprises

99. At all relevant times, Bloomfield BVI and the Insurance Companies each constituted an enterprise, as that term is defined in 18 U.S.C. § 1961(4), that engaged in and the affairs of which affected interstate commerce. In addition, Frankel, and others associated with Frankel, including Blair, Alliance, Wéry, Rosse, Timmins, Philip Miller, Mona Kim, Howe, Schuchter, Jeffrey Moreau, Cynthia Allison, Adriana Gustavo, Miriam Fischer, Kathryn Higgins, Stefan Radencovici, Jacqueline Ju, Alicia Walters, Oksana Wiktor, Gregory Wiktor, Beng Wan Tan, Burgess, Deborah Spaeth, Hackney, Atnip, Jordan, American Security Services, American Service Corporation, AWV Corporation, Ba-Gio Investments, S.A., Bloomfield S.A., Bloomfield BVI, Bradshaw, Bunnies, Inc., Creative Partners Fund, Devonshire Technologies, Ltd., FAC, Gates Investments, Inc., Good Luck Corporation,

Hartwick Management, Ltd., International Financial Corporation, Judicial Investigation Agency, Jupiter Capital, LNS, Lucky Star Investments, Middleburg Investments, Ltd., Resolute Investments, RMI, Inc., Sundew International, Ltd., Thunor Trust, ALA, American Annuity and Life Acquisitions, L.P., SFAF, Larry Martin, Thomas Quinn, Guyer, Monsignor Emilio Colagiovanni, *Monitor Ecclesiasticus* Foundation, Thomas Corbally, Edward Collins, and Endurance Investments, Ltd., constituted an association-in-fact enterprise (the “Association”). The Association functioned in a hierarchical decision-making structure and as a continuing unit from at least 1991 until May 1999, and was engaged in and the affairs of which affected interstate commerce.

Federal Law

100. There were in force and effect at all relevant times criminal statutes of the United States involving mail and wire fraud, 18 U.S.C. § 1341 and 18 U.S.C. § 1343. These statutes currently state in relevant parts as follows:

Whoever, having devised or intending to devise any scheme or artifice to defraud, or for obtaining money or property by means of false or fraudulent pretenses, representations, or promises. . . for the purpose of executing such scheme or artifice or attempting to do so, places in any post office or authorized depository for mail matter, any matter or thing whatever to be sent or delivered by the Postal Service, or deposits or causes to be deposited any matter or thing whatever to be sent or delivered by any private or commercial interstate carrier, or takes or receives therefrom, any such matter or thing, or knowingly causes to be delivered by mail or such carrier according to the direction thereon . . . any such matter or thing, shall be . . . [punished according to law].

* * *

Whoever, having devised or intending to devise any scheme or artifice to defraud, or for obtaining money or property by means

of false or fraudulent pretenses, representations, or promises, transmits or causes to be transmitted by means of wire, radio, or television communication in interstate or foreign commerce, any writings, signs, signals, pictures, or sounds for the purpose of executing such scheme or artifice, shall be [punished according to law].

101. There were in force and effect at all relevant times criminal statutes of the United States involving the laundering of monetary instruments, 18 U.S.C. §§ 1956(a)(1) and

(2). These statutes currently state in relevant part as follows:

Whoever, knowing that the property involved in a financial transaction represents the proceeds of some form of unlawful activity, conducts or attempts to conduct such a financial transaction which in fact involves the proceeds of such unlawful activity — . . . knowing that the transaction is designed in whole or in part — . . . to conceal or disguise the nature, the location, the source, the ownership, or the control of the proceeds of specified unlawful activity. . . shall be [punished according to law].

* * *

Whoever transports, transmits, or transfers, or attempts to transport, transmit, or transfer a monetary instrument or funds from a place in the United States to or through a place outside the United States or to a place in the United States from or through a place outside the United States — . . . knowing that the monetary instrument or funds involved in the transportation, transmission, or transfer represent the proceeds of some form of unlawful activity and knowing that such transportation, transmission, or transfer is designed in whole or in part — to conceal or disguise the nature, the location, the source, the ownership, or the control of the proceeds of specified unlawful activity. . . shall be [punished according to law].

The Scheme to Defraud

102. Beginning in 1990, Frankel devised and, with numerous others, implemented a scheme to defraud various investors, financial institutions and insurance companies, and to

obtain money and property, by false and fraudulent representations and pretenses, from various investors, financial institutions and insurance companies. The scheme, as described above, included Frankel's acquisition of insurance companies while concealing his involvement in and control of the companies, his looting of the acquired insurance companies, his laundering of the assets of the insurance companies once the assets were within his control and the subsequent dissipation of those assets.

103. To sustain, advance and prevent detection of the scheme to defraud, Frankel, Hackney, Atnip and Jordan established the Thunor Trust and other entities to act as a front for Frankel's acquisition of insurance companies. In addition, Frankel, Hackney, Atnip, Jordan and others caused statements to be made in Form A applications for various insurance companies, knowing such statements to be false, so as to conceal Frankel's control and involvement in the proposed acquisition of those insurance companies.

104. To sustain, advance and prevent detection of the scheme to defraud, Frankel, Hackney, Atnip, Jordan and others caused the cash assets of the Insurance Companies to be represented as having been invested with LNS, knowing such representations to be false. Frankel, Howe, Mona Kim, and others created, through the use of Burgess' computer program, and transmitted fabricated monthly statements and other information to the Insurance Companies (except OSL) that falsely represented that the assets had been invested in U.S. Government obligations by LNS, that certain trades had been conducted in such securities, and that the assets were earning profits as a result of these investments.

105. To sustain, advance and prevent detection of the scheme to defraud, Frankel, Martin, and others established ALA for the purpose of acquiring additional insurance

companies while concealing Frankel's control and involvement. In addition, Frankel, Martin, Blair and others caused statements regarding ALA to be made in connection with the proposed acquisitions of various insurance companies, knowing such statements to be false, so as to conceal Frankel's control and involvement in the proposed acquisition of those insurance companies.

106. To sustain, advance and prevent detection of the scheme to defraud, Frankel and others established SFAF for the purpose of acquiring additional insurance companies while concealing Frankel's control and involvement. In addition, Frankel and others caused statements regarding SFAF to be made in connection with the proposed acquisitions of various insurance companies, knowing such statements to be false, so as to conceal Frankel's control and involvement in the proposed acquisition of those insurance companies.

107. To sustain, advance and prevent detection of the scheme to defraud, Frankel, Wéry, and Alliance created Bloomfield BVI and Bloomfield S.A., structured the ownership of those entities, and Frankel opened accounts in those entities' names at Alliance and at Bear Stearns, for the purpose of transferring and receiving assets from the Insurance Companies, while making the assets untraceable and concealing Frankel's identity as the person who owned and controlled assets in the accounts.

108. To sustain, advance and prevent detection of the scheme to defraud, Frankel and others laundered the assets looted from the Insurance Companies through a variety of methods, including, but not limited to: (a) the transfer of such assets between and among the various accounts, including accounts at Alliance and Bear Stearns, using false and misleading documentation regarding origin or destination, and using unnecessary intermediate transfers

in moving funds; (b) the purchase of additional insurance companies and blocks of insurance business; (c) the purchase of real property; (d) the purchase of personal property, including but not limited to gold and diamonds; (e) the purchase and overseas shipment of travelers checks; (f) the purchase of automobiles and aircraft; and (g) the use of wire transfers for compensation, to pay expenses and to convert funds to cash.

109. In furtherance or execution of the scheme to defraud, Frankel, Hackney, Atnip, Jordan, and others caused to be used, on numerous occasions, the U.S. Postal Service, private or commercial interstate carriers, and interstate wires and telephone lines, in violation of the federal mail and wire fraud statutes, 18 U.S.C. §§ 1341 and 1343, including but not limited to the following:

- (a) transferring by wire or causing to be so transferred funds of the Insurance Companies directly and indirectly to banks or other financial accounts within and outside the United States maintained and controlled by, or held in the names of, Frankel, his aliases, or entities owned and controlled by him. By way of example only, such transfers include the following illegal wire transfers of funds:

<u>Date Wire Initiated</u>	<u>Amount of Wire Transfer</u>	<u>Originating Account</u>	<u>First Receiving Account</u>	<u>Ultimate Receiving Account</u>
11/8/91	\$17,900,000	FAL acct #10212490 at Bear Stearns	Chemical Bank acct #323039502	Alliance acct unknown
11/12/91	\$ 260,000	FAL acct #10212490 at Bear Stearns	Chemical Bank acct #323039502	Alliance acct unknown
12/6/91	\$ 540,000	FAL acct#10212490 at Bear Stearns	Chemical Bank acct #323039502	Alliance acct #70026
10/23/92	\$ 6,611,459	Bloomfield acct Credit Suisse #10210460 at Bear Stearns	Alliance acct #70026 acct #32979701	

3/11/94	\$ 4,374,165	FGL acct #66-234444-116 at A.G. Edwards	First American Alliance acct #70026 acct unknown	
3/14/94	\$ 1,218,005	FGL acct #66-234444-116 at A.G. Edwards	First American Alliance acct #70026 acct unknown	
4/8/94	\$ 2,850,000	FRL acct #1001172664 at First American	Dreyfus NY acct #1233342052143	Alliance acct #70026
4/20/94	\$ 5,200,000	FRL acct #1001172664 at First American	Dreyfus NY acct #1233342052143	Alliance acct #70026
11/3/94	\$ 500,000	Ba-Gio acct #27800989 at Bear Stearns	Credit Suisse acct #32979701	Alliance acct #70026
11/8/94	\$ 4,300,000	FAL acct #1000143490 at First American	Dreyfus NY acct #7190791361199	Alliance acct #70026
12/5/94	\$ 2,624,000	Ba-Gio acct #27800989 at Bear Stearns	Credit Suisse acct #32979701	Alliance acct #70026
1/30/95	\$ 1,888,000	IFS acct #1001172693 at First American	Dreyfus NY acct #7190791361199	Alliance acct #70026
3/13/95	\$ 3,400,000	Ba-Gio acct #27800989 at Bear Stearns	Credit Suisse acct #32979701	Alliance acct #70026
3/21/95	\$ 6,086,000	FPL acct #1001172431 at First American	Dreyfus NY acct #2640791367121	Alliance acct #70026
6/22/95	\$ 4,560,000	FPL acct #1001172431 at First American	Dreyfus NY acct #2640791367121	Alliance acct #70026
8/2/95	\$ 2,360,000	FPL acct #1001172431 at First American	Dreyfus NY acct #2640791367121	Alliance acct #70026
10/19/95	\$ 600,000	FGL acct #1000858235 at First American	Dreyfus NY acct #2640791367121	Alliance acct #70026
3/7/96	\$ 2,000,000	IFS acct #1001172693 at First American	Dreyfus NY acct #2640791367121	Alliance acct #70026
6/25/96	\$ 550,000	FGL acct #1000858235 at First American	Dreyfus NY acct #2640791367121	Alliance acct #70026

8/12/96	\$ 350,000	FAL acct #1000143490 at First American	Dreyfus NY acct #2640791367121	Alliance acct #70026
10/29/96	\$ 2,000,000	Ba-Gio acct #27800989 at Bear Stearns	Credit Suisse acct #32979701	Alliance acct #70026
12/9/96	\$ 450,000	Ba-Gio acct #27800989 at Bear Stearns	Credit Suisse acct #32979701	Alliance acct #70026
12/23/96	\$ 1,860,000	Ba-Gio acct #27800989 at Bear Stearns	Credit Suisse acct #32979701	Alliance acct #70026
12/27/96	\$ 900,000	FPL acct #1001172431 at First American	Dreyfus NY acct #2640791367121	Alliance acct #70026
2/5/97	\$ 107,180	Columbus acct #27801054 at Bear Stearns	Credit Suisse acct #32979701	Alliance acct #70026
2/27/97	\$ 400,000	Ba-Gio acct #27800989 at Bear Stearns	Credit Suisse acct #32979701	Alliance acct #70026
3/5/97	\$ 282,000	Ba-Gio acct #27800989 at Bear Stearns	Credit Suisse acct #32979701	Alliance acct #70026
7/3/97	\$23,240,000	IFC acct # 1001172703 at First American	Dreyfus NY acct #2640791367121	Alliance acct #70026
8/5/97	\$ 500,000	FAL acct #1000143490 at First American	Dreyfus NY acct #2640791367121	Alliance acct #70026
9/24/97	\$32,000,000	IFS acct #1001172693 at First American	Dreyfus NY acct #7190791402712	Alliance acct #70026
11/5/97	\$ 1,041,873	Ba-Gio acct #27800989 at Bear Stearns	Credit Suisse acct #32979701	Alliance acct #70026
12/9/97	\$14,600,000	IFS acct #100057671 at First Tennessee	Dreyfus NY acct #7190791402712	Alliance acct #70026
2/27/98	\$10,174,397	Jupiter Capital acct #27801054 at Bear Stearns	Credit Suisse acct #32979701	Alliance acct #70026

3/23/98	\$ 400,000	FGL acct #100057692 at First Tennessee	Dreyfus NY acct #7190791402712	Alliance acct #70026
4/17/98	\$93,113,000	FNL acct #100057727 at First Tennessee	Dreyfus NY acct #7190791437270	Alliance acct #70026
4/21/98	\$ 2,000,000	FNL acct #100057727 at First Tennessee	Dreyfus NY acct #7190791437270	Alliance acct #70026
5/8/98	\$40,055,466	Jupiter Capital acct #27801054 at Bear Stearns	Credit Suisse acct #32979701	Alliance acct #70026
5/29/98	\$ 4,160,000	FNL acct #100057727 at First Tennessee	Dreyfus NY acct #7190791437270	Alliance acct #70026
7/10/98	\$ 1,000,000	FNL acct #100057727 at First Tennessee	Dreyfus NY acct #7190791437270	Alliance acct #70026
9/9/98	\$ 1,500,000	FNL acct #100057727 at First Tennessee	Dreyfus NY acct #7190791438427	Alliance acct #70026
11/10/98	\$ 5,000,000	FNL acct #100057727 at First Tennessee	Dreyfus NY acct #7190791438435	Alliance acct #70026
1/13/99	\$69,000,000	FAL acct #100057708 at First Tennessee	Dreyfus NY acct #7190360111496	Alliance acct #70026
3/2/99	\$ 600,000	FGL acct #100057692 at First Tennessee	Dreyfus NY acct #7190360112270	Alliance acct #70026
3/22/99	\$ 400,000	FNL acct #100057727 at First Tennessee	Dreyfus NY acct #7190791438435	Alliance acct #70026
4/6/99	\$ 5,280,000	OSL acct #100279796 at First Tennessee	Dreyfus NY acct #7190360115224	Alliance acct #70026
4/9/99	\$44,795,000	FNL acct #100057727 at First Tennessee	Dreyfus NY acct #7190791438435	Alliance acct #70026

(b) wiring funds of the Insurance Companies from bank accounts outside the United States, including Alliance, maintained and controlled by, or held in the names of, Frankel, his aliases, or entities owned and controlled by him. By way of example only, the following transfers

include some of the hundreds of transfers of funds from the Alliance accounts which had been funded with assets looted from the Insurance Companies:

<u>Date</u>	<u>Originating Bank</u>	<u>Amount</u>	<u>Recipient Account</u>
9/30/93	Alliance	\$ 4,000,000	Bear Stearns Ba-Gio acct
3/4/94	Alliance	\$ 2,900,000	Bear Stearns Ba-Gio acct
12/9/94	Alliance	\$ 3,000,000	Bear Stearns Ba-Gio acct
3/24/95	Alliance	\$ 3,000,000	Bear Stearns Ba-Gio acct
10/8/96	Alliance	\$ 66,701	Bear Stearns Columbus acct
11/7/96	Alliance	\$ 1,999,985	Bear Stearns Ba-Gio acct
1/24/97	Alliance	\$ 39,985	Bear Stearns Columbus acct
10/23/97	Alliance	\$ 9,999,985	Bear Stearns Jupiter Capital acct
4/28/98	Alliance	\$39,999,975	Bear Stearns Jupiter Capital acct
2/2/99	Alliance	\$ 2,402	Citibank Lizbeth Iverson acct
2/23/99	Alliance	\$ 2,652	Citibank Lizbeth Iverson acct
2/24/99	Alliance	\$ 2,171	Citibank Lizbeth Iverson acct
4/12/99	Alliance	\$ 10,051	Chase Mark Burgess acct
4/19/99	Alliance	\$ 10,050	Chase Michelle Casey-Blair acct
4/20/99	Alliance	\$ 35,050	Chase Michelle Casey Blair acct

- (c) mailing or delivery by overnight courier over \$9 million in blank travelers checks purchased with funds of the Insurance Companies held in Frankel's Alliance accounts, which travelers checks were then used for, among other things, payments to Bear Stearns employees Burgess and Blair and their fiancés.

Money Laundering

110. Beginning in 1991, Frankel and others, including Blair and Bear Stearns, conducted or attempted to conduct financial transactions in which they knew or deliberately and consciously avoided confirming: that the funds involved were the proceeds of some form of unlawful activity; and that the transactions were designed to conceal or disguise the nature, location, ownership, or control of the funds, in violation of 18 U.S.C. § 1956(a)(1). In addition, Frankel and others, including Blair and Bear Stearns, transported, transmitted, or transferred monetary instruments from Switzerland to the United States in which they knew or deliberately and consciously avoided confirming: that the funds involved were the proceeds of some form of unlawful activity; and that the transfers were designed to conceal or disguise the nature, location, ownership or control of the funds, in violation of 18 U.S.C. § 1956(a)(2). These transactions included, but were not limited to, participation in the transactions identified in paragraph 110(a), (b) and (c) above.

FIRST CLAIM FOR RELIEF

Violation of 18 U.S.C. § 1962(d)

All Plaintiffs v. Bear Stearns and Blair

111. Plaintiffs repeat and reallege each and every paragraph set forth above as if fully set forth herein.

112. From 1997 through 1999, Blair was associated with Frankel and assisted him in attempting to acquire additional insurance companies and laundering money. Through these activities, Blair was associated with the enterprises.

113. From 1991 through at least 1999, Bear Stearns provided investment account and other services to FAL, FNL, and certain other Frankel-controlled entities. Through these services, Bear Stearns was associated with the enterprises.

114. In violation of 18 U.S.C. § 1962(d), Blair and Bear Stearns conspired to participate in the enterprises' affairs through a pattern of racketeering activity; namely, multiple acts of mail and wire fraud in violation of 18 U.S.C. § 1341 and 18 U.S.C. § 1343, and multiple acts of money laundering in violation of 18 U.S.C. § 1956(a)(1) and (2), all in violation of 18 U.S.C. § 1962(c).

115. Specifically, Blair and Bear Stearns, through its agents including, but not limited to, Blair, Carik, Marcus, Bishop, Lorig, Donohue, Youell, Cohen, Woodard, Haney and Burgess, knew, purposely contrived to avoid learning, or were recklessly indifferent to Frankel illegally laundering money through the Bear Stearns accounts and attempting to acquire additional insurance companies under false pretenses, based on at least the following:

- (a) Accounts not being used for their intended purposes, such as buying and selling securities and commodities, and instead being used largely to park or transfer cash;
- (b) Frequent, large circular transactions in which funds were wired into the accounts and then a like amount transferred out within a matter of days or weeks;
- (c) Frankel's request for special trading access and market maker accounts, and representations that he was a sophisticated and significant trader, even though he made very few trades during the entire eight year period that his accounts were open;
- (d) Repeated changes in trading and money transfer authority for accounts;
- (e) Accounts being opened for entities that served obscure or redundant purposes and that were incorporated in the British Virgin Islands, Switzerland and the Marshall Islands, which are known havens for money laundering activity;

- (f) Repeated multi-million dollar wire transfers into and out of Frankel's accounts to and from an account in Switzerland, sometimes involving the entire balances in the accounts;
- (g) Repeated transfers of funds between or among related accounts or accounts involving the same or related principals;
- (h) Transfers into the Bear Stearns accounts that concealed the identity of the transferring party;
- (i) Blair's and Burgess' knowledge that Frankel used multiple aliases in connection with his financial affairs;
- (j) Blair's and Burgess' knowledge that Frankel secretly owned LNS and the Insurance Companies and intended to secretly acquire additional insurance companies;
- (k) Blair and Burgess' knowledge that Frankel had been barred from the securities industry by the SEC; and
- (l) Payments in the form of blank travelers checks and wire transfers from Switzerland to Blair, Burgess and their fiancés, as well as to Woodard's lover.

116. A number of the Bear Stearns agents who knew, purposely contrived to avoid learning or were recklessly indifferent to the unlawful activity described in the preceding paragraph were high ranking Bear Stearns officers. These high ranking officers included at least the following: a) Blair, who was a Bear Stearns Managing Director; b) Lorig, who was the head or director of Bear Stearns' futures department; c) Donohue, who was a Bear Stearns Managing Director; and d) Cohen and Bishop, both of whom were Bear Stearns' in-house counsel.

117. Despite the clear indications of unlawful activity described above, Blair and Bear Stearns permitted and effected money laundering transactions in Bear Stearns accounts and permitted Frankel to open additional Bear Stearns accounts. Bear Stearns benefitted from

this activity by collecting fees, charges and commissions from Frankel and anticipated even greater benefits based on the significant commodities and futures business Frankel told them to expect. Blair and Bear Stearns also continued their account relationships with Frankel, and assisted Frankel in connection with the acquisition activities of ALA, which were proposed to be massive, in the hope of earning substantial commissions, charges and fees from Frankel and conducting account, investment banking and other business with Frankel, ALA and Alliance.

118. Blair and Bear Stearns agreed to facilitate Frankel's scheme to defraud, and did facilitate the scheme to defraud, and agreed to facilitate, and did facilitate Frankel's money laundering activities, by the conduct described above.

119. As a direct and proximate result, the Insurance Companies were injured in their business and property by reason of the violation of 18 U.S.C. § 1962(d) in an amount not yet determined, but believed to be in excess of \$200,000,000.

SECOND CLAIM FOR RELIEF

Aiding and Abetting Fraud

All Plaintiffs v. Bear Stearns and Blair

120. Plaintiffs repeat and reallege each and every paragraph set forth above as if fully set forth herein.

121. Frankel perpetrated a fraud on the Insurance Companies. Blair and Bear Stearns, through its agents including, but not limited to, Blair, Carik, Marcus, Bishop, Lorig, Donohue, Youell, Cohen, Woodard, Haney and Burgess, assisted Frankel in the perpetration of the fraud, through the conduct described above.

122. At the time they assisted Frankel, Blair and Bear Stearns, through its agents identified above, knew, purposely contrived to avoid learning, or were recklessly indifferent to Frankel illegally laundering money through the Bear Stearns accounts and attempting to acquire additional insurance companies under false pretenses.

123. Blair and Bear Stearns, by the actions described above, provided substantial assistance to advance the fraud perpetrated by Frankel.

124. As a direct and proximate result of the scheme to defraud, the Insurance Companies were damaged in an amount not yet determined, but believed to be in excess of \$200,000,000.

THIRD CLAIM FOR RELIEF

Civil Conspiracy

All Plaintiffs v. Bear Stearns and Blair

125. Plaintiffs repeat and reallege each and every paragraph set forth above as if fully set forth herein.

126. By the conduct alleged above, Blair and Bear Stearns, through its agents including, but not limited to, Blair, Carik, Marcus, Bishop, Lorig, Donohue, Youell, Cohen, Woodard, Haney and Burgess, conspired with Frankel to aid and abet fraud, and to obtain money and property by false and fraudulent representations and pretenses, including the attempted acquisition of insurance companies while concealing Frankel's involvement and control, and laundering the assets of the Insurance Companies.

127. As a direct and proximate result of the actions taken in furtherance of this conspiracy, the Insurance Companies were damaged in an amount not yet determined, but believed to be in excess of \$200,000,000.

FOURTH CLAIM FOR RELIEF

Commercial Bad Faith

All Plaintiffs v. Bear Stearns

128. Plaintiffs repeat and reallege each and every paragraph set forth above as if fully set forth herein.

129. Bear Stearns acted in bad faith by assisting Frankel in his scheme to defraud, through the conduct described above.

130. At the time they assisted Frankel, Blair and Bear Stearns, through its agents identified above, knew, purposely contrived to avoid learning, or were recklessly indifferent to Frankel illegally laundering money through the Bear Stearns accounts and attempting to acquire additional insurance companies under false pretenses.

131. As a direct and proximate cause of Bear Stearns' commercial bad faith, the Insurance Companies were damaged in an amount not yet determined, but believed to be in excess of \$200,000,000.

FIFTH CLAIM FOR RELIEF

Negligence in Connection with Bear Stearns' Customer Relationships with FAL and FNL

Dale as Receiver of FNL and Flowers as Receiver of FAL v. Bear Stearns

132. Plaintiffs repeat and reallege each and every paragraph set forth above as if fully set forth herein.

133. At all relevant times, Bear Stearns owed a duty of reasonable care to FAL and FNL in connection with its performance of financial services, including a duty to perform its services in accordance with the standard of care established by, among other things, applicable laws and regulations, its own practices, policies, and procedures and those of similarly situated financial institutions. This included, but was not limited to, a duty of Bear Stearns to recognize, detect, stop and refrain from participating in transactions under circumstances where Bear Stearns knew about:

- (a) Accounts not being used for their intended purposes, such as buying and selling securities and commodities, and instead being used largely to park or transfer cash;
- (b) Frequent, large circular transactions in which funds were wired into the accounts and then a like amount transferred out within a matter of days or weeks;
- (c) Frankel's request for special trading access and market maker accounts, and representations that he was a sophisticated and significant trader, even though he made hardly any trades during the entire eight year period that his accounts were open;
- (d) Repeated changes in trading and money transfer authority for accounts;
- (e) Accounts being opened for entities that served obscure or redundant purposes and that were incorporated in the British Virgin Islands, Switzerland and the Marshall Islands, which are known havens for money laundering activity;
- (f) Repeated multi-million dollar wire transfers into and out of Frankel's accounts to and from an account in Switzerland, sometimes involving the entire balances in the accounts;
- (g) Repeated transfers of funds between or among related accounts or accounts involving the same or related principals;

- (h) Transfers into the Bear Stearns accounts that concealed the identity of the transferring party;
- (i) Frankel's use of multiple aliases in connection with his financial affairs; and
- (j) Frankel's secret ownership of the Insurance Companies.

134. Furthermore, Bear Stearns' duty of reasonable care included a duty to "know its customer" and not allow transactions that were not of the sort in which the particular customer would normally be expected to engage or that were contrary to the stated investment purposes of the customer. Finally, Bear Stearns had a duty not to allow transactions directed by persons not authorized to transact business in the account.

135. Bear Stearns breached its duty of reasonable care in connection with its performance of services, and failed to recognize, detect, stop and refrain from participating in the transactions identified herein and other similar transactions and, thus, permitted the looting and laundering of the assets of its customers, FAL and FNL.

136. As a direct and proximate result of Bear Stearns' breach of its duties of care, FAL and FNL were injured and suffered damages in an amount not yet determined, but believed to be in excess of \$90,000,000.

SIXTH CLAIM FOR RELIEF

Breach of Contract in Connection with Bear Stearns' Customer Relationships with FAL and FNL

Dale as Receiver of FNL and Flowers as Receiver of FAL v. Bear Stearns

137. Plaintiffs repeat and reallege each and every paragraph set forth above as if fully set forth herein.

138. Both FAL and FNL entered into written, oral or implied contracts with Bear Stearns. Pursuant to these contracts, Bear Stearns expressly, impliedly or by operation of law agreed to, among other things, handle the FAL and FNL accounts consistently with applicable laws and regulations and the prevailing practices, policies, and procedures of Bear Stearns and other, similarly situated financial institutions. This included, but was not limited to, a duty of Bear Stearns to recognize, detect, stop and refrain from participating in transactions under circumstances where Bear Stearns knew about:

- (a) Accounts not being used for their intended purposes, such as buying and selling securities and commodities, and instead being used largely to park or transfer cash;
- (b) Large circular transactions in which funds were wired into the accounts and then a like amount transferred out within a matter of days or weeks;
- (c) Frankel's request for special trading access and market maker accounts, and representations that he was a sophisticated and significant trader, even though he made hardly any trades during the entire eight year period that his accounts were open;
- (d) Repeated changes in trading and money transfer authority for accounts;
- (e) Accounts being opened for entities that served obscure or redundant purposes and that were incorporated in the British Virgin Islands, Switzerland and the Marshall Islands, which are known havens for money laundering activity;
- (f) Repeated multi-million dollar wire transfers into and out of Frankel's accounts to and from an account in Switzerland, sometimes involving the entire balances in the accounts;
- (g) Repeated transfers of funds between or among related accounts or accounts involving the same or related principals;
- (h) Transfers into the Bear Stearns accounts that concealed the identity of the transferring party;

- (i) Frankel's use of multiple aliases in connection with his financial affairs; and
- (j) Frankel's secret ownership of the Insurance Companies.

139. Furthermore, Bear Stearns had a contractual duty to "know its customer" and not allow transactions that were not of the sort in which the particular customer would normally be expected to engage or that were contrary to the stated investment purposes of the customer. Finally, Bear Stearns had a contractual duty not to allow transactions directed by persons not authorized to transact business in the account.

140. Bear Stearns breached these contractual duties in connection with its performance of services, and failed to recognize, detect, stop and refrain from participating in the transactions identified herein and other similar transactions and, thus, permitted the looting and laundering of the assets of its customers, FAL and FNL.

141. FAL and FNL performed all of their obligations under the agreements.

142. As a direct and proximate result of Bear Stearns' breach of its contractual obligations, FAL and FNL were injured and suffered damages in an amount not yet determined, but believed to be in excess of \$90,000,000.

SEVENTH CLAIM FOR RELIEF
Breach of Fiduciary Duty in Connection with Bear Stearns'
Customer Relationships with FAL and FNL

Dale as Receiver of FNL and Flowers as Receiver of FAL v. Bear Stearns

143. Plaintiffs repeat and reallege each and every paragraph set forth above as if fully set forth herein.

144. As a securities broker for the FAL and FNL accounts, Bear Stearns had a fiduciary relationship with FAL and FNL and owed fiduciary duties to them to know and understand: (1) the nature of their business; (2) the suitability of certain financial transactions for them; (3) their investment goals; and (4) the persons authorized to make transactions in their accounts.

145. Bear Stearns also had a fiduciary duty to permit only properly authorized transactions to take place in the FAL and FNL accounts, and to recognize, detect, stop and refrain from participating in the transactions under circumstances where Bear Stearns knew about:

- (a) Accounts not being used for their intended purposes, such as buying and selling securities and commodities, and instead being used largely to park or transfer cash;
- (b) Large circular transactions in which funds were wired into the accounts and then a like amount transferred out within a matter of days or weeks;
- (c) Frankel's request for special trading access and market maker accounts, and representations that he was a sophisticated and significant trader, even though he made hardly any trades during the entire eight year period that his accounts were open;
- (d) Repeated changes in trading and money transfer authority for accounts;

- (e) Accounts being opened for entities that served obscure or redundant purposes and that were incorporated in the British Virgin Islands, Switzerland and the Marshall Islands, which are known havens for money laundering activity;
- (f) Repeated multi-million dollar wire transfers into and out of Frankel's accounts to and from an account in Switzerland, sometimes involving the entire balances in the accounts;
- (g) Repeated transfers of funds between or among related accounts or accounts involving the same or related principals;
- (h) Transfers into the Bear Stearns accounts that concealed the identity of the transferring party;
- (i) Frankel's use of multiple aliases in connection with his financial affairs; and
- (j) Frankel's secret ownership of the Insurance Companies.

146. Through the conduct alleged above, Bear Stearns breached its fiduciary duties to FAL and FNL.

147. As a direct and proximate result of Bear Stearns' breach of its fiduciary duties, FAL and FNL were injured and suffered damages in an amount not yet determined, but believed to be in excess of \$90,000,000.

PRAYER FOR RELIEF

WHEREFORE, Plaintiffs do hereby pray for the following relief against Bear Stearns and Blair, jointly and severally, as follows:

(A) with regard to their First Claim for Relief, arising under the Racketeer Influenced and Corrupt Organizations Act, 18 U.S.C. § 1962(d), Plaintiffs pray for compensatory damages in an amount to be proven at trial and that such damages be trebled, prejudgment interest, attorneys' fees, costs, and such other relief as is just and proper, all pursuant to 18 U.S.C. § 1964(c);

(B) with regard to their Second Claim for Relief, aiding and abetting fraud, Plaintiffs pray for compensatory damages in an amount to be proven at trial, prejudgment interest, punitive damages, costs, and such other relief as is just and proper;

(C) with regard to their Third Claim for Relief, civil conspiracy, Plaintiffs pray for compensatory damages in an amount to be proven at trial, prejudgment interest, punitive damages, costs, and such other relief as is just and proper;

(D) with regard to their Fourth Claim for Relief, commercial bad faith, Plaintiffs pray for compensatory damages in an amount to be proven at trial, prejudgment interest, punitive damages, costs, and such other relief as is just and proper;

(E) with regard to their Fifth Claim for Relief, negligence, FAL and FNL pray for compensatory damages in an amount to be proven at trial, prejudgment interest, costs, and such other relief as is just and proper;

(F) with regard to their Sixth Claim for Relief, breach of contract, FAL and FNL pray for compensatory damages in an amount to be proven at trial, prejudgment interest, costs, and such other relief as is just and proper; and

(G) with regard to their Seventh Claim for Relief, breach of fiduciary duty, FAL and FNL pray for compensatory damages in an amount to be proven at trial, prejudgment interest, costs, and such other relief as is just and proper.

DEMAND FOR TRIAL BY JURY

Pursuant to Rule 38 of the Federal Rules of Civil Procedure, and the Seventh Amendment to the Constitution of the United States, Plaintiffs hereby demand a trial by jury of all issues in this case.

Dated: New York, New York
March 19, 2004

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